

Contents

Part I Establishing the VAT and Financial Supplies Benchmarks

1 Theories of Consumption and the Consequences of Partial Taxation of Financial Services	3
Robert F. van Brederode and Richard Krever	
1.1 The Concept of Consumption.....	4
1.2 The Consequences of Partial Taxation of Financial Services	7
1.2.1 Mixed and Composite Supplies.....	8
1.2.2 Change of Use.....	9
1.2.3 Sale of Used Business Assets	9
1.2.4 Input Tax Allocation.....	10
1.3 The Challenge	11
References.....	11

Part II Loans and Intermediary Services

2 Taxing Loan Intermediary Services: Theory and Design Considerations	15
Robert F. van Brederode and Richard Krever	
2.1 Introduction	15
2.2 Characterizing Loan Principal, Interest and Loan Intermediary Services for VAT Purposes	16
2.2.1 Loan Principal.....	16
2.2.2 Interest.....	16
2.2.3 Loan Intermediary Services	18
2.3 Alternative Methods of Taxing Financial Services	20
2.3.1 Treating Financial Services as Exempt Supplies	20
2.3.2 Recharacterizing Loans as Ordinary Business Supplies.....	22
2.3.3 Limited Input Tax Credits for Financial Loan Service Suppliers.....	23

2.3.4	Zero-Rating	24
2.3.5	Addition Method	25
2.3.6	Subtraction Method	26
2.3.7	Cash Flow Method	26
2.3.8	Modified Reverse Charge	29
2.4	Summary, Conclusions, and Policy Objectives	31
	References	32
3	Loan Intermediary Services: Argentina	35
	Guillermo Teijeiro	
3.1	General Description	36
3.1.1	Legal Framework	36
3.1.2	VAT Scope: Financial Supplies—Loan Intermediary Services	36
3.1.3	Tax Point	37
3.1.4	Place of Supply or Equivalent	37
3.1.5	Chargeable Amount: Valuation	38
3.1.6	Tax Rate	39
3.1.7	Exempt Supplies or Equivalent	39
3.1.8	Deduction and Recovery of Input Tax	40
3.1.9	State, Provincial or Local Indirect Taxes	41
3.2	Account Fees	42
3.3	ATM Fees	42
3.4	Credit Card Purchase Surcharges	42
3.5	Facilitators of Loans	43
3.6	Finance Leases	43
3.6.1	Tax Point	44
3.6.2	Special Exemption	44
3.6.3	Leasing of Motor Vehicles	44
3.6.4	VAT Financing	45
3.6.5	Optional Regime to Offset Output VAT in Advance	45
3.6.6	Leasing Contracts on Real Estate	46
3.6.7	Leaseback Transactions	47
3.7	Non-financial Services that Might Be Deemed to be Financial	48
3.7.1	Safe Deposit Boxes	48
3.7.2	Implicit and Explicit Loans in the Course of Business	48
3.8	Gross Income Tax	49
	References	49

Contents	ix
4 Loan Intermediary Services: Australia	51
Richard Krever and Jonathan Teoh	
4.1 Introduction	51
4.2 What Are Financial Supplies?	53
4.2.1 The Definition of Financial Supplies	53
4.2.2 Credit Card Surcharges	56
4.3 Recovery of Input Tax by Financial Suppliers	57
4.3.1 The General Apportionment Rule	57
4.3.2 The <i>de Minimis</i> Exception to Apportionment	57
4.3.3 The ‘Acquisition Supply’	58
4.3.4 Borrowing-Related Costs	60
4.4 Reduced Input Tax Credits	61
4.5 Imported Services Provided to Enterprises Making Financial Supplies	63
4.6 Exported Financial Supplies	63
4.7 Reform Recommendations	64
References	64
5 Loan Intermediary Services: Brazil	67
Flavio Rubinstein	
5.1 Introduction	68
5.2 Federal VAT Taxation of Financial Services	72
5.2.1 Federal Taxation of Gross Revenues: PIS and COFINS	72
5.2.2 PIS and COFINS Levies on Financial Institutions	73
5.2.3 PIS and COFINS Levies for Non-financial Institutions	75
5.2.4 Inbound and Outbound Financial Services	78
5.3 Sub-national VAT Taxation of Financial Services	78
5.3.1 National Framework	78
5.3.2 National Rules for the Taxation of Financial Services	81
References	86
6 Loan Intermediary Services: Canada	87
Simon Thang	
6.1 Overview	87
6.2 Lending in General	88
6.2.1 Introduction	88
6.2.2 Exclusions from ‘Financial Service’	92
6.2.3 ‘Arranging For’ Financial Services	95
6.2.4 Credit Card Surcharges	98
6.2.5 Loans in the Course of Business	99
6.2.6 <i>De Minimis</i> Financial Institutions	101

6.2.7	Input Tax Credits	103
6.3	Self-assessment Requirements.	105
6.4	Special Attribution Method for Provincial Tax	107
	Reference	108
7	Loan Intermediary Services: China	109
	Na Li and Richard Krever	
7.1	Introduction	109
7.2	Scope of Loan Intermediary Services in China.	111
7.3	The Former Business Tax Regime	112
7.4	The Current VAT Regime	114
7.4.1	Explicit Loans	115
7.4.2	Implicit Loans	116
7.4.3	Timing Issues	118
7.4.4	A Lost Opportunity	119
7.5	Exported Loan Intermediary Services	119
7.6	Tax Administration.	120
7.7	Summary	121
	References.	121
8	Loan Intermediary Services: European Union	123
	Joachim Englisch	
8.1	Legal Framework	123
8.2	Treatment of Financial Sector Loan Intermediary Services	125
8.2.1	General Approach: Exemption Without Credit	125
8.2.2	Scope of the Exemption in the Case of Core Lending Activities	127
8.2.3	Exemption of Ancillary Activities	130
8.2.4	Services Related to Credit Cards	131
8.2.5	Exemption of Outsourced Activities	132
8.2.6	Apportionment Formula for Input Tax Credits	134
8.3	Direct Loans in the Course of Business	135
8.3.1	Treatment as a Separate or Merely Ancillary Supply	135
8.3.2	Apportionment Formula for Input Tax Credits	137
	References.	137
9	Loan Intermediary Services: Israel	139
	David Goldman	
9.1	Introduction	139
9.2	The Case for Imposing Wage and Profit Tax on Financial Institutions	141
9.3	The Financial Institution Classification	143
9.3.1	The Legal Definition	143
9.3.2	Commercial Banks	143

9.3.3	Insurer	144
9.3.4	A Category of Persons Designated by the Minister of Finance	145
9.3.5	Classification According to Section 58	147
9.3.6	In Conclusion	150
9.4	The Application of VAT	150
9.5	The Application of Wage and Profit Tax	152
9.5.1	Wage Tax	152
9.5.2	Profit Tax	154
9.5.3	Cross-Border Distortions	155
9.6	Conclusion	156
	References	157
10	Loan Intermediary Services: New Zealand	159
	Marie Pallot and Thomas Allen	
10.1	Introduction	159
10.2	History of New Zealand's GST Treatment of Financial Services	160
10.3	GST Treatment of Loan Intermediary Services Under New Zealand's Goods and Services Tax Act	161
10.4	The Scope of the Exempt Treatment of Loan Intermediary Services	163
10.5	Business-to-Business Zero-Rating of Loan Intermediary Services	165
10.6	Imported Services and the Reverse Charge	167
11	Loan Intermediary Services: South Africa	169
	Alwyn de Koker and Gerhard Badenhorst	
11.1	Introduction	170
11.2	The Legal Framework	171
11.2.1	Loan Intermediation	176
11.2.2	Finance Leases and Rentals	177
11.2.3	Fees and Charges	178
11.2.4	Ancillary Activities	179
11.2.5	Outsourced Activities	180
11.2.6	Apportionment for Loan Intermediaries	180
11.2.7	Reverse Charges	183
11.2.8	Direct Loan Services	184
11.2.9	Apportionment for Input Tax—Direct Loan Services	185

Part III Financial Investments

12 VAT and Financial Investments	189
Richard Krever	
12.1 Introduction	189
12.2 Acquiring and Issuing Investments.....	190
12.3 Investments by Unregistered Individuals.....	191
12.4 Enterprises and Investments	193
12.5 Establishing a Benchmark.....	196
References	197
13 VAT and Cost Sharing in the EU	199
Ine Lejeune, Joost Vermeer and Simon Cornelje	
13.1 Introduction	199
13.2 Impact of VAT in the Financial Services Industry	200
13.3 Cost Sharing or Cost Allocation as a Taxable Supply	201
13.3.1 Supply.....	202
13.3.2 For Consideration	203
13.3.3 Reciprocal Performance and Cost Allocation.....	204
13.3.4 Conclusion	207
13.4 Cost Sharing Provisions in the VAT Directive	207
13.4.1 VAT Grouping	207
13.4.2 Cost Sharing Exemption	209
13.4.3 Cost Sharing Exemption Implemented in the Various Countries	217
13.5 Specific Examples of Cost Sharing Out of Scope of VAT in Certain Member States	218
13.5.1 The Netherlands	218
13.5.2 Belgium.....	218
13.6 Conclusions and Policy Recommendations.....	220
13.6.1 Clear and Definitive Guidance Required on Cost Sharing Exemption.....	220
13.6.2 Cross-Border VAT Grouping.....	221
13.6.3 Review of the Treatment of Financial Services	221
References	222
14 A VAT/GST Perspective on Crowdfunding	223
Sebastian Pfeiffer	
14.1 Introduction	223
14.2 Non-financial Return Models	225
14.2.1 General Remarks.....	225
14.2.2 Donation-Based Crowdfunding	226
14.2.3 Reward-Based Crowdfunding	226
14.3 Financial Return Models.....	227
14.3.1 General Remarks	227

14.3.2	Equity Models	228
14.3.3	Lending Models	229
14.4	Jurisdictional Examples	229
14.4.1	EU Perspective	229
14.4.2	South African Perspective	239
14.4.3	Australian Perspective	243
14.4.4	Canadian Perspective	246
14.4.5	New Zealand Perspective	249
14.5	Summary and Conclusions	252
	References	254
15	Financial Investments: European Union	257
	Joachim Englisch	
15.1	Legal Framework and Overview	257
15.2	Equity Instruments	259
15.2.1	Instruments Covered by the Exemption	259
15.2.2	Equity Instruments: Exempt Supplies v. Out-of-Scope Activities	261
15.2.3	Derogations from the Exemption	266
15.2.4	Input VAT Deduction	267
15.2.5	Other Transactions ‘in’ Equity Interests	269
15.3	Debt and Hybrid Instruments	270
15.3.1	Investments Covered by Exemptions	270
15.3.2	Debt and Hybrid Instruments: Exempt Supplies v. Out-of-Scope Activities	272
15.4	Derivatives	274
15.4.1	Scope of Analysis	274
15.4.2	Lack of Guidance at EU Level	275
15.4.3	Creation of the Derivatives Contract: A Taxable Event?	276
15.4.4	Terminating or Settling a Derivatives Position: A Taxable Event?	280
15.4.5	Scope of Relevant Exemptions	281
15.4.6	Input VAT Deduction	287
15.5	Collective Investment Vehicles	288
15.5.1	Exempt Supplies v. Out-of-Scope Investments	289
15.5.2	Scope of the Exemption for Trade in CIV Units	289
15.5.3	Exemption of the Management of Special Investment Funds	291
15.5.4	Input VAT Deduction	292
15.6	Portfolio Management and Other Ancillary Services	293
15.7	Input VAT Deduction of the Investor	296
15.7.1	Overview and Summary	296
15.7.2	Incidental Financial Transactions and Deductible Pro Rata	297

15.7.3	Pro Rata Calculation in Case of Out-of-Scope Investment Activities	297
	References	298
16	Financial Investments: South Africa	301
	Alwyn de Koker and Gerhard Badenhorst	
16.1	Shares	302
16.2	Securities Lending	305
16.3	Debentures and Debts	306
16.4	Collective Investment Schemes	309
16.5	Derivatives	310
16.6	Long-Term Insurance Policies	311
16.7	Ancillary Services	312
16.8	Input Tax	313
Part IV Financial Pooling Services: Insurance and Gambling		
17	GST and Insurance: Australia	319
	Richard Krever and Jonathan Teoh	
17.1	Introduction	319
17.2	Unregistered Persons	320
	17.2.1 In-Kind Settlements	321
	17.2.2 Cash Settlements	322
	17.2.3 Subrogation, Excess (or ‘Deductible’) Amounts and Ex Gratia Payments	324
17.3	Registered Persons	325
	17.3.1 Registered Persons: The Initial System	326
	17.3.2 Registered Persons: The Current System	327
	17.3.3 Insurance Provided Through Independent Agents	330
17.4	Reinsurance (Domestic Reinsurer)	332
17.5	Compulsory Third-Party Insurance	332
17.6	Cross-Border Insurance	333
	17.6.1 Offshore Insurers	333
	17.6.2 Registered Suppliers Providing Insurance for Offshore Risks	334
17.7	Life Insurance and Health Insurance	334
	References	335
18	VAT and Insurance: The European Union	337
	Marta Papis-Almansa	
18.1	Introduction	337
18.2	EU Exemption Model	339
18.3	Purpose of the Exemption for Insurance	341
18.4	The Scope of the Exemption: Interpretative Difficulties	342
18.5	The ‘Essentials of an Insurance Transaction’: The <i>CPP</i> Decision and a Block Insurance Policy	344

18.6	The Nature of a Service Is Decisive: <i>Commission v. Greece</i> and Road Assistance Services	347
18.7	A Contractual Relationship: <i>Skandia</i> and Administrative Services	348
18.8	Agents and Brokers Being ‘No More Than Intermediaries’: <i>Taksatorringen</i> and Damage Assessment	349
18.9	Outsourced Activities with No Risk Assumption Are Outside the Scope of Exemption: <i>Arthur Andersen</i> and Back-Office Services	351
18.10	Indirect Contractual Relationship: <i>Beheer</i> and Services of Sub-agents	352
18.11	(Re)strict(ive) Interpretation: <i>Swiss Re</i> and Transfer of a Portfolio of Reinsurance Contracts	353
18.12	‘Re-invoicing’ of the Exact Cost of Insurance Is Exempt: <i>BGŻ Leasing</i> and Insurance Provided Together with Leasing	354
18.13	Substance Over Form: <i>Mapfre</i> and Extended Warranties	356
18.14	An Impact of the Commission’s Proposal on the Existing Case Law: <i>Aspiro</i> and Claim Settlement Activities	359
18.15	Conclusions	361
	References	363
19	GST and Insurance: Singapore	365
	Soo How Koh and Rushan Lee	
19.1	Introduction	365
19.2	Life Insurance	366
19.3	General Insurance	368
19.4	Agents, Broking and Intermediary Services	368
19.5	Reinsurance	369
19.6	Deemed Input Tax on Cash Payments	369
19.6.1	Recovery of Part or Whole of Cash Payment	370
19.6.2	Ex Gratia	370
19.7	Input Tax on Motor Vehicle Expenses	370
19.8	Input Tax Recovery Formula	371
	References	372
20	VAT and Gambling	373
	Fabiola Annacondia and Laura Mattes Alonso	
20.1	Introduction	373
20.2	Definitions	375
20.3	How to Impose VAT on Gambling Transactions: <i>Exemption v. Taxation</i>	377
20.3.1	EU VAT System	377
20.3.2	Modern VAT Systems	381

20.4	Gambling Services Provided Through the Internet	386
20.4.1	The Rise of Online Gambling	386
20.4.2	How Should VAT Be Imposed on e-Gambling Transactions?	389
20.5	Conclusions	394
	References	397
	Table of Case Law	399